

MEMORANDUM

To: Aaron Frank, Assistant Town Manager and CFO
From: Stephen Falbel
Re: Local Option Tax Revenue Estimate
Date: November 24, 2014

This memorandum presents an estimate of the total revenue potential from a 1% Local Option Tax (LOT) that would be applied to taxable sales, meals, rooms and alcohol. The basis of this estimate are FY2014 figures for the total sales in these categories in the Town of Colchester as reported by the VT Department of Taxes (<http://www.state.vt.us/tax/statisticsm&rmult.shtml>, <http://www.state.vt.us/tax/statisticss&umult.shtml>).

FY2014 estimates of Colchester Taxable Sales:

Sales Tax	Meals Tax	Rooms Tax	Alcohol Tax	Total
\$328,047,327	\$22,308,465	\$14,398,509	\$2,917,086	\$367,671,387

As is clear from the figures, the vast majority of sales come under the category of the general sales tax. Within this category, the LOT would not be applicable to sales that are “exported” or delivered to locations out of town; thus, Colchester will not receive revenues from the 1% LOT for these sales. However, if a Burlington resident buys something in Colchester and takes it back to Burlington, that the item would be subject the LOT.¹

By far, the largest single generator of sales in the general sales tax category is Green Mountain Power, and the majority of its sales take place out of Colchester, even though they are recorded as Colchester sales in the State figures. Beyond GMP, other retailers in Colchester deliver some of their goods to locations out of Colchester. It is difficult to calculate how much of these other sales are exported because the State does not publish sales figures for individual retailers, nor do the retailers publish how much of their sales are delivered to other towns. Dun & Bradstreet does report annual revenue for businesses located in Colchester, and although these figures are not as precise or reliable as the State-reported totals, they can provide a reference point to estimate exported sales.

Some of the largest retailers in Colchester are furniture stores and boat/yacht sellers as well as Costco. Many of the goods sold by these retailers may be delivered to locations out of Colchester. By applying estimates of what portions of these sales would be delivered to out-of-

¹ Deliveries of goods, bought in Colchester, to other towns that have a LOT, such as Burlington or Williston, would generate LOT revenue for both towns, but this calculation is set aside for the purpose of this memo.

town locations to the revenue estimates from Dun & Bradstreet, an overall estimate of out-of-town sales can be made. Using the best available data, it is estimated that about \$200 million of the sales are delivered to out of town locations, leaving a net taxable sales figure of \$128 million. Because this figure incorporates a number of assumptions, it should be the midpoint of a range between a revenue floor and a revenue ceiling which the Town is able to calculate based on confidential information it has received. The floor of net taxable sales is approximately \$86 million. The ceiling of net taxable sales is \$158 million.

The resulting estimate of sales, LOT revenue and the net revenue to the Town (after the State takes out its portion for administering the tax) is shown in the table below. Note that in addition to the 30% allotment to the State, the State collects a fee of \$5.96 per merchant per quarter. An allowance of 0.5% has been added to the State portion to account for this fee since the State does not publish how many merchants submit tax filings for each town.

	Sales Tax	Meals Tax	Rooms Tax	Alcohol Tax	Total
Total sales for Colchester per State	\$328,047,327	\$22,308,465	\$14,398,509	\$2,917,086	\$367,671,387
Est of taxable sales delivered out of town	(\$200,000,000)	\$0	\$0	\$0	(\$200,000,000)
Net sales	\$128,047,327	\$22,308,465	\$14,398,509	\$2,917,086	\$167,671,387
1% sales tax	\$1,280,473	\$223,085	\$143,985	\$29,171	\$1,676,714
Less: State portion (30% + fee allowance)	(\$390,544)	(\$68,041)	(\$43,915)	(\$8,897)	(\$511,398)
Estimate of net tax revenue	\$889,929	\$155,044	\$100,070	\$20,274	\$1,165,316
<i>Information based on 2014 sales figures from the State of Vermont Department of Taxes</i>					

In order to estimate the potential revenue for future years when the LOT may be implemented, the average annual growth rate in sales was calculated from historical figures. According to State-provided figures, total tax revenue for Colchester in FY2000 was \$177,017,890. The average annual growth rate from then to the FY2014 total shown above is 5.36%.

Applying the 5.36% average annual growth rate to the above net revenue estimate yields an estimate for FY2016 of \$1.29 million.

The “floor” revenue potential for FY16, using the smaller net sales figure of \$86 million, would be \$873,724. The “ceiling” revenue potential for FY16 would be \$1.525 million.